

# EU Government retail-targeted bond issuance



by **Katie Kelly**

In the EU, Government retail-targeted bond issuance is not new, but a recent surge in issuance in some countries has prompted ICMA to examine this trend. I am grateful to a number of individuals from debt management offices from among the ICMA Public Sector Issuer Forum (PSIF), who generously shared their insights for this article.

Many governments' retail programmes have always been very active, while others have accelerated over recent years, induced in some cases by the "flight to quality" in the global financial crisis and post COVID-19 recovery. In other cases, government strategy has long been to motivate people to save in the domestic currency, resulting in an historically active market, while some jurisdictions, notably Germany and the Nordic region, do not issue directly to retail at all (although retail access may be granted to regular bonds as part of an ETF basket or similar).

Although retail programmes can form part of more strategic, annual government funding planning, for others it is more speculative, possibly predicated on the public mood (for instance, where demand for subscriptions in previous bonds has been unusually high). Although there may be caps on individuals' participations, demand for retail subscriptions is almost always fully met. Some governments may close subscription windows early in order to control issuance volumes, but the inherent difficulty in predicting subscription levels can leave issuers with a lot of excess liquidity to manage, which can then skew the rest of the year's funding plans.

It has been reported that recent Belgian Government retail issuance was intended to motivate banks to give better depositor savings rates. Whether this is the case or not, for governments the attractions of issuing to retail are myriad: it pays a social dividend which aligns with many governments' aims of encouraging households to save by providing safe investment opportunities; it can satisfy yield-sensitive investors with above-market pricing, and can incorporate a variety of features to match public demand, such as step-ups, or interest paid in securities rather than

cash; and products can serve certain, bespoke purposes, such as savings for new-borns. Issuance and distribution are straightforward, and expensive marketing is rarely necessary, although brand awareness and identity through education are considered important.

In terms of financial management, issuing to retail allows diversification of the public debt portfolio and widening of the investor base on a relatively risk-free basis. Most retail investors tend to be buy-and-hold; although retail bonds may be capable of being traded, and banks may be retained to make a market, in reality there is little secondary activity, and some holders are incentivised to hold to maturity with additional premia paid at maturity. This means that issuing retail bonds represents a constant, safe, steady funding source in rising market rates environments or in periods of sudden higher financial needs, which also reduces refinancing risks. This is particularly pertinent in times of market shocks when retail investors are attracted to "safe" investments. Retail bond issuance also alleviates supply pressure on ordinary bonds, and higher domestic savings means less dependence on foreign inflows, capital and investment. Keeping retail issuance domestic means there would be less competition should all EU Governments need to boost issuance simultaneously.

For investors, retail bonds are easily available on dedicated government websites and via distributors, high street banks (in branch or online), and post offices. They are offered free of fees and charges, and are usually tax efficient (in some cases there is no tax payable on interest by investors at all, while in others, tax on interest is payable but at a preferential rate). Structures tend to be simple, transparent and understandable, with simple terms and conditions. They are accessible to a range of investors (entry-points vary between €1 to €1,000), which also conveniently aligns with many governments' ambitions of enhancing financial integration, education and literacy, albeit at a basic level.

This is all very positive, and recognising that barriers can be solved at a government and local legislative level, it is

likely that the market for retail issuance will continue on an increasingly upward trajectory. However, it does present technological challenges: systems are not always able to cope with existing demand let alone planned increased capacity, accessibility and the user experience could be improved, and there is a need to keep pace with advancements in mobile phone and other technology. Much of this could be achieved by digitalisation, which could also help to expand distribution channels, fix existing technical difficulties and improve ranges of products and pricing.

Related, financial literacy and inclusion are high on the agenda, in line with governments' ambitions of encouraging a culture of saving and investing, particularly in countries where retail investors tend to be only the financially sophisticated, older and with high disposable income or otherwise with high levels of savings. Digitalisation could assist by appealing to a younger generation used to the ease and immediacy of screen-based apps.

The nexus between issuance to retail and financial literacy and inclusion also aligns with [Action 7](#) of the [CMU Action Plan](#). Commissioner Mairead McGuinness [said recently](#) that: "Retail investor participation in the EU is low by international standards. Just 17% of EU household assets are held in financial securities, and that's compared to 43% in the US. Our levels of financial literacy are also low. Too many EU consumers just don't understand enough about their finances."

Elsewhere, green retail bonds have been issued in other global jurisdictions (including the UK, Indonesia and Hong Kong), and are now receiving some focus across the EU. Although there is some perception that retail investment decisions are more likely to be based on returns than on green credentials, which may dampen the impetus somewhat, this may become the next development in retail bonds.

There is of course a risk that continued government issuance to retail could crowd banks out, and with fewer deposits and savers, that could force up funding rates for banks. This could also be a consequence for those corporate issuers who issue to retail, with a knock-on effect on the global economy if as a result they are less likely to fund capital projects, employment etc. However, bank disintermediation, risks to financial stability or weakening of the banking sector are the last thing governments would intend, so in all likelihood retail funding programmes would be reined in if these risks were to materialise.



**Contact: Katie Kelly**  
[katie.kelly@icmagroup.org](mailto:katie.kelly@icmagroup.org)

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